Education

Overview of Martz Administration Education Plan

December 10, 2002

Education continues to be a top priority for the Martz Administration. The goal of the following proposals and all initiatives of the Governor's education policy is to utilize effective leadership in difficult financial times to provide hope to the students, parents and educators of Montana.

- **Teacher Loan Repayment (LC0548)**
  - The Governor will bring forward legislation that offers $3,000 for 4 years through the Montana Guaranteed Student Loan Program for new teachers that take jobs in high shortage areas as defined by the Board of Public Instruction.

- **Professional Development Days**
  - The Martz administration supports providing flexibility to school districts to maintain the aggregate number of hours mandated by the state for pupil instruction while lessening the number of days necessary to allow for professional development, and will bring forward legislation to meet that goal. This recommendation comes from the adequacy study conducted by Augenblick and Myers, upholding local control.

- **Averaging Enrollment (LC1487)**
  - The Governor proposes to average the enrollments of Montana's schools over a period of three years to decrease the burden of fixed costs on schools with declining enrollments. Montana will experience an 11.5 percent drop in the number of students over eight years. The question arises as to how quickly can districts adjust to the lower number of students. Portions of school district budgets are fixed costs that take time to reduce. Currently, when a district loses a student, the Average Number Belonging (ANB) entitlement for that student is reduced in the following year. Districts have had a difficult time adjusting the fixed costs that quickly.

- **School Employee Insurance Reform**
  - The Martz administration will work with the legislature on a comprehensive school employee insurance pool as outlined in the Governor's Public School Funding Advisory Council.

Economic Development

Overview of Martz Administration Economic Development Plan

December 10, 2002

Economic Development is the top priority of the Martz Administration. In the 2001 Legislative Session, Governor Martz proposed the formation of a statewide office to coordinate economic development. With legislative endorsement, the Governor's Office of Economic Opportunity was created. Its mission is to guide the state's economic development efforts to create a stronger, more diversified economy in Montana. The office has worked in partnership with businesses, organizations and the university system to outline the following legislative items:

- **Provide Access to Capital for Small Businesses (LC0465)**
  - Allow Montana Board of Investments to purchase stable loans from local revolving loan programs. This allows stable, good quality loans to be repurchased from local revolving loan programs by the board. This adds significant lending capacity to these small business loan programs. Improving access to capital for our small businesses promotes entrepreneurship, creates jobs and builds a strong foundation for our economic growth.

- **Fund Long Term Economic Development (LC0460)**
  - Extend statutory appropriation for economic development to 10 years to provide consistency and predictability for our economic development efforts. Meaningful long-term development requires a commitment to stay the course and provide long-term support.

- **Workforce Training (LC0632)**
  - Create program for businesses to fund worker training by using tax increment financing. This is a tool for retention/recruitment and allows businesses to fund training for NEWLY CREATED jobs. North Dakota has used this type of program with good results. Worker training is the best incentive for expanding or relocating businesses because, in addition to creating good paying jobs, it provides Montana workers with higher skills and training.

- **Regional Economic Development Structure (LC0455)**
  - Create a regional structure for all funding/support to local economic development groups and Montana businesses. Without a regional approach we cannot achieve the critical mass of expertise and resources needed to affect real change in our economy. The state must take a leadership role in promoting a regional approach to problem solving and local economic development.

- **Tax Reform (see detailed tax reform proposal)**

Tax Reform for Economic Development

Overview of Martz/Ohs Administration Tax Reform Plan and Recommendations from Advisory Councils

December 10, 2002

Governor Martz outlined a three-part Tax Reform Plan on April 15, 2002, as part of her overall economic development plan to create good paying jobs for Montana families. Three advisory councils were formed and made recommendations regarding each part of the plan. Those recommendations have been incorporated in the following plan.

- **Cut income taxes by approximately 10% in a manner that benefits all classes of Montana taxpayers, reduce Montana's income tax rates (which are the highest in the country), and reduce our effective capital gains rates (which are the highest in the region). (LC0810)**

  In our increasingly mobile society, businesses and individuals can move to the state that is most competitive. We get compared with the states in our region regularly on financial and quality of life grounds. Taxes are a large part of the financial comparison.

  When we are compared on our residential and commercial property tax rates and corporate income tax rates, we are generally competitive. When we are compared on our income and capital gains tax rates, we are not.

  The plan reduces Montana's income and capital gains tax rates, incorporating a credit on capital gains and a cap on federal deductibility. Specifically:

Income Tax

- Montana's top marginal income tax rate, at 11%, is the highest in the nation. Even our 9% rate is the highest in the region.
- These high rates lead business people, entrepreneurs and others to leave Montana or to exclude Montana from consideration when deciding where to locate.
- The plan cuts income taxes by approximately 10% in a manner that benefits all income levels of Montana taxpayers. The tax cut in 2005 would be approximately $67 million.

Capital Gains

- At 9%, Montana has the highest effective capital gains rate in the region, even higher than our effective rate on ordinary income. This high effective capital gains rate is caused by federal deductibility; that is, our ability to deduct federal taxes paid on our state tax return.
- A high capital gains rate has several adverse economic effects. It causes owners of businesses and investments expected to appreciate rapidly to be concerned about locating and investing here. More commonly, it causes business owners, farmers and ranchers to leave Montana and establish residency in another state before selling their business, farm or ranch. Another effect is that it encourages out-of-state residents with real property to do a tax-free exchange for property in another state before selling and paying capital gains tax.

- These effects deprive Montana of jobs, investment and tax revenue.
- Families across all income brackets share in capital gains income, whether it's a sale of a farm, ranch, business, rental property, stock or other capital asset.
- The plan creates a credit equal to 1% of capital gains income which, together with the reduction in tax rates, reduces the top effective rate on capital gains from 9.0% to 5.9%, a 37% reduction in the effective rate.

Cap on Federal Deductibility

- The plan caps federal deductibility at $5,000 ($10,000 for married taxpayers filing jointly).

■ **Replace lost tax revenue with a limited sales tax that significantly targets nonresidents. (LC0810)**

To achieve the income tax and capital gains rate reductions, we must replace the lost tax revenue. This tax plan does so with a limited sales tax that significantly targets nonresidents.

The income and capital gains tax reductions will cause the economy to grow and generate more tax revenue, especially in the long-term, but in the short-term we will need to find another source of revenue.

We need to follow the lead of other states and share our tax burden out-of-state. The reason for this is straightforward. Tax dollars collected from Montanans are dollars that Montanans would otherwise spend and invest in our state, rippling through the economy. Tax dollars collected from nonresidents, however, are dollars that would otherwise be spent and invested in other states.

To share our tax burden with nonresidents, we need to do so under a tax of which nonresidents will pay a significant portion. Specifically:

- The plan contains a replacement tax that is a limited sales tax on those goods and services of which nonresidents buy the highest percentage. The limited sales tax will be paid approximately 44% by nonresidents as opposed to nonresidents paying 7% of the state's income tax, a shift of 37% of the tax liability out-of-state.
- In addition, this plan reduces state taxes on Montanans by $24 million per year and combined federal and state taxes by $13 million per year.
- The rate of tax will be 4% and will be on the following goods and services: prepared food and drink, accommodations, rental cars, rental of recreational equipment, guided recreation and sightseeing, admissions (except for movies and amateur athletics) and recreation fees.
- Businesses collecting the tax will be allowed to keep 5% of the tax collected to offset the cost of collection activity.

When the income tax reductions and limited sales tax are considered together:

✓ Income tax rates are more competitive
✓ Effective capital gains tax rates are more competitive
✓ Total taxes are decreased for Montanans and are increased for nonresidents
✓ All income levels of Montana taxpayers are better off than under the current system
✓ These parts of the plan are intended to be revenue neutral for the state

- **Allow local voters to adopt a local option tax that would add on to the limited sales tax. (LC0804)**
  - The plan also allows local voters to adopt up to a 3% local option tax that would add on to the statewide limited sales tax.
  - Counties and cities/towns in the economic region where a local option tax has been enacted would share 30% of the tax proceeds.
  - The local option tax would assist communities in economic development and in property tax relief. If a city or county adopts the local option tax, at least 10% will go to property tax relief.
  - The local option tax would be on the same items as the statewide limited sales tax and be administered by the state to minimize the administrative burden to businesses.